

# **TABLE ES-1: SURVEY RESULTS**

## **KNOWLEDGE AND EXPECTATIONS ABOUT BILLING FOR CALLS**

	(a) 800 CALLS	(a) 900 CALLS	(a) REGULAR LONG DIST.	(b) EXPECT TO BE BILLED FOR FOR INFO ON 800 CALLS
FREE	96%	50%	17%	84%
PAY	4	47	80	13
DON'T KNOW	0	3	3	3

## **PREFERENCES FOR BILLING FOR INTERACTIVE INFORMATION SERVICES (c)**

JUST PUNCH "ONE"	23%
PUNCH IN THE TELEPHONE NUMBER	18
USE A CREDIT CARD	13
DO NOT OFFER SERVICES IN THIS WAY	35
DON'T KNOW	11

(a) Which of the following types of telephone calls do you expect to be charged for? (1) A regular long distance call; (2) A call to an 800 number; (3) A call to a 900 number; (4) A call to a neighbor; (5) None of these/Don't know

(b) Some businesses are now offering interactive information services where a caller can press a particular number and get information about particular subjects. Would you expect to be charged for information provided on an 800 number call?

c) Some interactive information services charge customers for the information that they provide. How do you think callers to these services should indicate that they are willing to pay for information? (1) Just punch in a "one" and have it put on the bill of the telephone from which the call was placed. (2) Punch in your telephone number and receive a bill from the telephone company or from the company providing the service. (3) Use a credit card, so that the cost appears on the credit card bill, not the telephone bill. (4) Services should not be offered in this way. (5) Not sure/Don't know.

SOURCE: National random sample public opinion survey of 1010 respondents conducted between August 13 and 16, 1992 for Citizens Research by Opinion Research Corporation.

- o Only 23% said that just punching "one" should be the way consumers signal their willingness to purchase.
- o Those who understand billing are more likely to say services should not be offered in this way and less likely to say "just punch one" than those who got the billing questions incorrect.

Demographic factors raise further concerns about billing for services during 800 and 900 number calls.

- o Older, less educated, and lower income respondents are more likely to misunderstand billing and be confused about 900 number calls.

Among respondents who got all the 800 number billing questions correct and who are 35 years old or older or have incomes above \$15,000, 47% said services should not be offered on 800 number calls. In contrast, poor (income less than \$15,000) or young (age 18-24) respondents who got the billing questions wrong were much less likely to say the service should not be offered (12%). Among the former group, less than 18% said "just punch one," compared to 35% among the latter.

### C. THE PROBLEM OF TELEPHONE BILLED INFORMATION TRANSACTIONS

The confusion about billing for 900 number calls and the expectation that 800 number calls are "free" combines with a number of characteristics of this unique purchase situation to dramatically increase the likelihood that consumers will be misled into incorrectly or inadvertently making purchases during 800 and 900 number calls.

- o A belief that the call is free and no purchase intention means that any warning is not likely to be heard, understood or heeded, because the warning is contrary to expectations.
- o Any warning that billing is about to occur takes place in audio format, the type of information most likely to be miscomprehended.
- o The consumer has little time to pause to consider the purchase and there is no tender of a bill to be examined, contemplated or agreed to.

The ability and willingness of consumers to challenge erroneous bills is limited.

- o Since no bill is tendered at the point-of-purchase and the "service" is holding time on a telephone call, there is little ability to subject it to post-purchase scrutiny.
- o Because the billing party is the telephone company and individual purchases are small, the consumer is less likely to challenge the bill.

The fact that the transaction takes place electronically, in private, compounds problems from the point of view of consumer protection. It is difficult for consumer protection agencies to view the commodity and virtually impossible for them to scrutinize transactions involving real consumers.

#### **D. CONCLUSION**

Electronic billing for information services during 800 and 900 number calls cannot be treated as a routine purchase. The "Just Punch One" billing approach preferred by marketers is particularly prone to error on the part of consumers and deception on the part of marketers. The public does not understand the billing situation well and is very likely to be misled about billing. A plurality does not even want any of this type of billing to go on and an overwhelming majority does not prefer this "just punch one" approach.

Marketers can easily deceive because of the nature of the transaction and the targeting of vulnerable market segments is likely due to strong demographic effects. Consumers are not likely to, nor do they have much chance of, correcting errors. Consumer protection agencies have great difficulty policing these private, electronic transactions. Steps to prevent abuses in telemarketing of information services on 800 and 900 number calls are urgently needed.

## **I . BACKGROUND AND OVERVIEW**

### **A. THE CONCERNS ABOUT BILLED SERVICES DURING "800 NUMBER" CALLS**

A recent petition to the Federal Communications Commission to establish rules for pay per call services offered during 800 number calls concluded that these calls present a significant problem for consumers.<sup>1</sup> The essence of the problem is the mixing of "free" calls with billed services. The result is both confusion in the customer's mind about whether, how and when billing takes place and an open invitation to misleading and deceptive practices among marketers.

In the past several months, the States have observed the proliferation of pay-per-call services which solicit calls by the use of "free" 800 inward WATS lines. In some cases, callers are directed to a separate 900 number; in others, callers are induced to continue these calls or to take some other step which results in the caller being billed for the call or the service provided on the call...

In the opinion of the States, certain of these 800 pay-per-call services are not complying with the requirements of the FCC Pay-Per-Call Order and, in some instances, are using deceptive and misleading tactics to induce callers to complete the call, resulting in a bill for the call. Upon receiving the bill for the call and "service" many customers remit the charges because they are confused about whether they in fact had agreed to incur the charge or are concerned

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1. The States of Connecticut, et al., Petition for Clarification and Modification, In the Matter of Policies and Rules Concerning Interstate 900 Telecommunications Services, CC docket No. 91-65.

that non-payment might threaten the continued availability of their telephone service.<sup>1</sup>

As a real world example of the problem, the petitioners cite law suits brought against a marketing firm in almost a dozen states.<sup>2</sup>

#### **B. PURPOSE AND CONCLUSION OF THE REPORT**

This report presents the results of a national random sample public opinion survey which asked a number of knowledge and opinion questions about billing for services on 800-number calls. The empirical analysis shows that telephone-billed, interactive information services for 800 number calls pose a major problem for consumers.

- o Consumers believe that 800 number calls are "free."
- o They are confused about the billing status of 900 number calls. Older, lower income and less educated respondents are more likely to give incorrect responses about which calls are "free" and which are billed.
- o They would prefer that billed services not be offered in this fashion.

Chapter II describes the survey results. Chapter III places these results in the context of the large literature on consumer purchases and deceptive marketing practices.

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1. Ibid., pp. 2-3.
2. Ibid., pp. 3-4.

## **II. EMPIRICAL ANALYSIS**

In order to study the issue of 800 number pay-per call services, Citizens Research was commissioned to conduct a national, random sample public opinion poll. The telephone interviews were conducted by Opinion Research Corporation as part of its weekly Caravan. A sample of 1010 interviews was conducted beginning August 13, 1992 and ending August 16, 1992. Given the sample size, sampling tolerances are approximately  $\pm 3$  percent.

### **A. PUBLIC PERCEPTION OF 800 AND 900 NUMBER CALLS**

#### **1. SUMMARY OF FINDINGS**

Because the focus of this report is on the public's understanding of the nature of different types of calls and its expectation about billing, we asked several questions about whether specific calls were billed. We find that the respondents correctly state that 800 number calls are "free," but are confused about 900 number calls. Older, lower income and less well educated respondents are more likely to give incorrect responses.

#### **2. SURVEY QUESTIONS**

For purposes of comparison, we began the survey with a question that parallels a recent survey by Louis Harris.<sup>1</sup> Short  
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1. Louis Harris and Associates, Inc., Telephone-Based Fraud: A Survey of the American Public, N.D.

of an open ended question, it provides the respondent with the greatest latitude. For purposes of the analysis, we call this the "Harris" wording.<sup>1</sup>

Which of the following best describes an 800 number?

A free long distance call

A call you pay for that is provided by a long distance telephone company. The cost depends on the time of day and the length and distance of the call.

A call you pay for which is provided by a private company. The company which provides the 800 number service decides how much the call costs.

Not sure/Don't know

For the 800 number call the first response is correct. For the 900 number call, the third is correct. However, while the second is incorrect for a 900 number call, it does show that the respondent understands that the call is a billed call. Note, however, that it attributes the billing authority to the telephone company. It also incorrectly states how charges are calculated.

Since the key characteristic of the call is whether or not it is billed, we posed that question again as a simple yes/no type of issue. For purposes of this analysis we call this the "Citizens" wording.

Which of the following types of telephone calls do you expect to be charged for?

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1. In all cases, responses were rotated.

A regular long distance call

A call to an 800 number

A call to a 900 number

A call to a neighbor

None of these/Don't know

By including questions on other types of services, we can gauge how the public's expectations and understanding of specific types of calls fit in the overall comprehension of billing. We find that even when the idea of services during 800 number calls is introduced, respondents do not expect to be billed. Respondents also do not support the easy, "just punch one" approach to billing for such services.

### **3. SURVEY RESULTS**

#### **a. Overall Patterns**

The responses to these questions show that the understanding of billing varies across types of calls. Traditional calls are quite well established in the public's mind, while new types of calls are misunderstood (See Table 1).

In the Harris wording of the 900 number question about two-thirds gave a correct answer. One-fifth said they did not know and three percent said it was a free call. One-ninth said it was a billed call, but thought the telephone company set the charges, which is incorrect.

For the Harris wording of the 800 number question, 71 percent correctly said it was free. One-ninth said they did not



**TABLE 1:**

**KNOWLEDGE ABOUT BILLING FOR SPECIFIC TYPES OF CALLS**

	<b>"HARRIS WORDING"</b>		<b>"CITIZENS WORDING"</b>		
	900	800	900	800	LONG DISTANCE
<b>FREE</b>	3	71	50	96	17
<b>PAY TELCO</b>	11	8	47	4	80
<b>PAY COMPANY</b>	65	9			
<b>DON'T KNOW</b>	21	11	3	0	3

"Harris wording -- Which of the following best describes an 800 number? 1) A free long distance call; 2) A call you pay for that is provided by a long distance telephone company. The cost depends on the time of day and the length and distance of the call; 3) A call you pay for which is provided by a private company. The company which provides the 800 number service decides how much the call costs; 4) Not sure/Don't know

"Citizens wording -- Which of the following types of telephone calls do you expect to be charged for? 1) A regular long distance call; 2) A call to an 800 number; 3) A call to a 900 number; 4) A call to a neighbor; 5) None of these/Don't know

know. A total of 17 percent said it was a billed call.

The Citizens wording gives a different result. Asked simply whether a call is billed, 96 percent said, correctly, that an 800

**TABLE 2:  
DEMOGRAPHIC FACTORS AND KNOWLEDGE OF BILLING**

**PERCENT OF RESPONDENTS GIVING CORRECT ANSWER**

	"HARRIS 800	REGULAR LONG DIST.	Citizens WORDING"	
			800	900
<b>EDUCATION:</b>				
LESS THAN 8TH GRADE	65	85	94	33
INCOMPLETE HIGH SCHOOL	71	75	98	34
HIGH SCHOOL GRADUATE	72	79	96	44
SOME COLLEGE	74	81	95	56
COLLEGE GRADUATE	69	81	96	53
POST GRAD WORK	75	82	97	61
PROFESSION SCHOOL	92	94	100	53
<b>INCOME:</b>				
UNDER \$10,000	71	73	94	47
\$10 TO \$15,000	68	80	91	35
\$15 TO \$20,000	83	71	98	33
\$20 TO \$25,000	80	77	90	45
\$25 TO \$30,000	78	85	94	44
\$30 TO \$35,000	68	81	98	51
\$35 TO \$40,000	81	84	98	47
\$40 TO \$50,000	72	82	97	51
\$50 TO \$75,000	68	80	100	55
\$75 TO \$100,000	65	71	99	56
\$100,000 OR MORE	79	74	98	74
<b>AGE OF RESPONDENT:</b>				
18 TO 20	76	70	99	62
21 TO 24	74	81	96	52
25 TO 29	78	74	93	49
30 TO 34	76	73	96	53
35 TO 39	80	83	99	49
40 TO 44	77	84	94	52
45 TO 49	71	81	99	38
50 TO 54	71	82	97	59
55 TO 59	69	80	98	42
60 TO 64	63	89	94	39
65 OR OLDER	61	84	96	37

In contrast, age has the opposite effect. Older respondents tended to have fewer correct responses for the 800 number and 900 number questions, but not the regular long distance question.

**B. EXPECTATIONS AND PREFERENCES ABOUT BILLING FOR SERVICES**

number.

A second question posed the specific purchase situation of concern in telephone-billed information service purchases.

Some interactive information services charge customers for the information that they provide. How do you think callers to these services should indicate that they are willing to pay for information?

Just punch in a "one" and have it put on the bill of the telephone from which the call was placed.

Punch in your telephone number and receive a bill from the telephone company or from the company providing the service.

Use a credit card, so that the cost appears on the credit card bill, not the telephone bill.

Services should not be offered in this way.

Not sure/Don't know.

Finally, a set of questions was included which dealt with purchases over the phone. A question asked whether a credit card had been used to purchase goods, services or information.

Have you ever purchased any of the following items over the phone by giving out your credit care number...

A product

A service

Information

None of these/Don't know

### 3. SURVEY RESULTS

#### a. Overall Patterns

The expectation of billing for information services during 800 number calls corroborates the public's understanding of 800 number calls as free. Approximately 84 percent of the respondents said they would not expect to be billed for the provision of specific information, even if they were involved in obtaining interactive information service calls. Only 13 percent

TABLE 3:

## PREFERENCES FOR BILLING FOR INTERACTIVE INFORMATION SERVICES

	ALL RESPONDENTS	THOSE WHO EXPECT NOT TO BE CHARGED FOR 800 CALL INFORMATION	THOSE WHO THINK 800 NUMBERS ARE NOT CHARGED	THOSE WHO ARE UNCERTAIN ABOUT CHARGE FOR 800 CALL INFORMATION	THOSE WHO ARE 800 NUMBER CHARGES	THOSE WHO EXPECT TO BE CHARGED FOR 800 CALL INFORMATION	800 NUMBERS ARE CHARGED
JUST PUNCH "ONE"	23	22	23	15	14	33	34
PUNCH IN THE TELEPHONE NUMBER	18	17	17	3	10	29	38
USE A CREDIT CARD	13	13	14	10	0	13	6
DO NOT OFFER SERVICE	35	36	36	22	13	15	10
DON'T KNOW	11	8	10	50	63	10	0
(N)	1000	(836)	(932)	(34)	(28)	(130)	(39)

Some interactive information services charge customers for the information that they provide. How do you think callers to these services should indicate that they are willing to pay for information?

- 1) Just punch in a "one" and have it put on the bill of the telephone from which the call was placed.
- 2) Punch in your telephone number and receive a bill from the telephone company or from the company providing the service.
- 3) Use a credit card, so that the cost appears on the credit card bill, not the telephone bill.
- 4) Services should not be offered in this way.
- 5) Not sure/Don't know.

Those who expect not to be charged for 800 number calls or who correctly state that 800 number calls are not generally billed, are more likely to say services should not be offered in this way than those who gave incorrect responses (36 percent compared to 10-15 percent). They are less likely to say just punch one -- (22-23 percent compared to 33-34 percent).

Those who express uncertainty about how 800 number calls are billed expressed strong uncertainty about selling information services -- over one-half gave this response. Very few in this category gave the "just punch one" response.

Almost 40 percent of respondents said that they had purchased a product over the telephone using their credit card; 9 percent report purchasing a service; and 2 percent report purchasing information. Overall 44 percent said that they had purchased at least one of these three categories of items. In comparison, the recent Harris poll found that 64 percent of the respondents had possessed a national credit card at some time. Thus, a telephone purchase appears to be common for those who have credit cards.

Those who have experience with credit card, product purchases over the telephone are somewhat more likely to give correct answers to the knowledge questions, as Table 4 shows. They do not exhibit any difference in their preferences about how such transactions should be conducted. Those who purchased information gave a wrong response to the question about billing for long distance calls.



TABLE 4:

## TELEPHONE CREDIT CARD USAGE AND TELEPHONE CALL BILLING KNOWLEDGE

## PERCENT OF RESPONDENTS GIVING CORRECT ANSWER

	"HARRIS WORDING 800	"Citizens 800 900	WORDING" 900	REGULAR LONG DISTANCE	EXPECT TO BE BILLED FOR 800 CALL	N OF RESP.
<b>PURCHASE EXPERIENCE</b>						
<b>PRODUCT</b>			*	*	*	
YES	74	97	55	84	12	386
NO	70	96	43	77	14	614
<b>SERVICE</b>						
YES	73	96	53	78	19	90
NO	71	96	47	80	12	910
<b>INFORMATION</b>				*		
YES	94	100	88	61	7	24
NO	71	96	46	80	13	976

Have you ever purchased any of the following items one the phone by giving out your credit care number.. 1) A product; 2) A service; 3) Information; 4) None of these/Don't know

#### **b. Differences Between Demographic Groups**

The income and age differences noted for the knowledge questions are also observed in questions on the preference for billing (see Table 5). Respondents who are between 18 and 34 are more likely to prefer "just punch one" and less likely to say services should not be offered in that manner. Older respondents give opposite responses, particularly those over 50.

Respondents with incomes below \$10,000 are likely to select just punch one and not likely to say services should not be offered in that way.

Combining the demographic and substantive analysis reveals some very strong patterns, as Table 6 shows. Among respondents who got all the 800 number billing questions correct and who are 35 years old or older or have incomes above \$15,000, 47 percent said services should not be offered on 800 number calls. Less than one-fifth said "just punch one."

In contrast, poor or young respondents who got the billing questions wrong were much less likely to say the service should not be offered (12 percent). They were much more likely to say "just punch one" is preferable (35 percent).

TABLE 5:

DEMOGRAPHIC FACTORS AND BILLING PREFERENCES

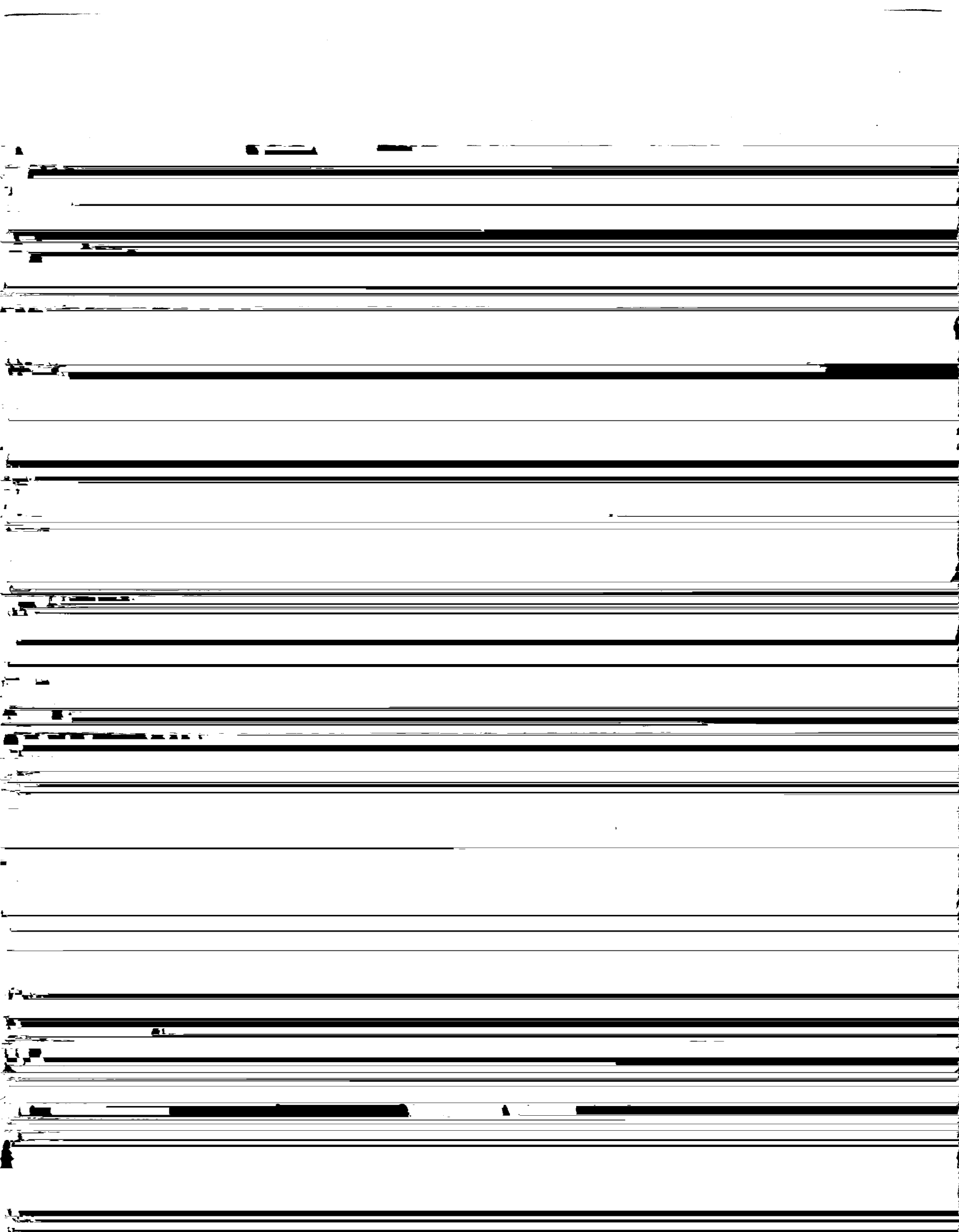
PERCENT OF RESPONDENTS GIVING  
EACH ANSWER

	JUST PUNCH ONE	DO NOT OFFER SERVICE THAT WAY
INCOME:		
UNDER \$10,000	31	19
\$10 TO \$15,000	30	37
\$15 TO \$20,000	19	33
\$20 TO \$25,000	22	45
\$25 TO \$30,000	18	44
\$30 TO \$35,000	29	35
\$35 TO \$40,000	17	36
\$40 TO \$50,000	25	31
\$50 TO \$75,000	26	35
\$75 TO \$100,000	35	28
\$100,000 OR MORE	22	28
AGE OF RESPONDENT:		
18 TO 20	28	24
21 TO 24	32	23
25 TO 29	26	28
30 TO 34	30	28
35 TO 39	22	37
40 TO 44	26	43
45 TO 49	22	36
50 TO 54	18	54
55 TO 59	21	39
60 TO 64	18	51
65 OR OLDER	18	36

TABLE 6

THE IMPACT OF DEMOGRAPHIC FACTORS AND EXPECTATIONS  
ON BILLING PREFERENCES

	EXPECT NOT TO PAY FOR 800 NUMBER CALL		EXPECT TO PAY FOR 800 NUMBER CALL	
	OLD OR NOT POOR	YOUNG OR POOR	OLD OR NOT POOR	YOUNG OR POOR
JUST PUNCH "ONE"	18	29	32	35
PUNCH IN THE TELEPHONE NUMBER	14	18	30	29
USE A CREDIT CARD	12	16	7	16
DO NOT OFFER SERVICE	47	31	22	12
DON'T KNOW	9	6	8	8
(N)	(387)	(337)	(74)	(83)



heeded.<sup>1</sup>

Furthermore, the consumer may not even be intending to initiate a purchase,<sup>2</sup> since the motive may be only to obtain information during a free call.<sup>3</sup> Consumers also lack experience with this type of transaction.<sup>4</sup>

The strong expectation about the call and the lack of motivation to make a purchase suggests that consumers will not be attendant to simple warnings about when a billing period is about to begin. A belief that the call is free and no purchase intention results in an unwanted purchase because the warning is not likely to be heard, understood or heeded.<sup>5</sup>

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1. W. L. Wilkie, "Affirmative Disclosure at the FTC: Communication Decisions," Journal of Public Policy and Marketing, 6 (1987); G. R. Funkhouser, "The Empirical Study of Consumers' Sensitivity to the Wording of Affirmative Disclosure Messages," Journal of Public Policy and Marketing, 3 (1984).

2. Funkhouser, 1984.

3. Similarity between products has been found to result in confusion between brands (E. R. Foxman, D. D. Muehling and P.W. Berger, "An Investigation of Factors Contributing to Consumer Brand Confusion," Journal of consumer Affairs, 24 (1990); B. Loken, I. Ross and R.L. Hinkle, "Consumer "Confusion" of Origin and Brand Similarity Perceptions," Journal of Public Policy and Marketing, 5, (1986)). Needless to say the similarity between a free 800 number call and the billed 800 number call is great.

4. R. N. Laczniak and S. Grossbart, "An Assessment of Assumptions Underlying the Reasonable Consumer Element in Deceptive Advertising Policy," Journal of Public Policy and Marketing, 8, (1989); Funkhouser, 1984, Foxman, Muehling and Berger, 1990.

5. Consumers lack involvement under these circumstances which results in confusion (J. Jacoby and W. D. Hoyer, The Comprehension and Miscomprehension of Print Communications (The Advertising Educational Foundation, 1987); Laczniak and Grossbart, 1990).

**B. THE SELLER**

The fact that it is a telephone-billed transaction also creates a problem. Telephone service is a monopoly service and the telephone company has a position of authority power and

post-purchase scrutiny.<sup>1</sup>

The commodity typically involves a small, infrequent purchase. This reduces the consumer's tendency to seek out other information.<sup>2</sup>

### C. THE TRANSACTION

The transaction is extremely problematic. The consumer has little time to pause to consider the purchase.<sup>3</sup> If the warning

message is comprehended, and heeded, the consumer must typically



hang up quickly to avoid the start of the billing period.<sup>1</sup>

There is no tender of a bill to be examined and contemplated or agreed to.<sup>2</sup> Indeed, unless the consumer comes ready with a stop watch, he or she will not know how much was spent for several weeks. The ability to ensure correct billing under such circumstances is virtually nil. Given this lack of concrete evidence of the transaction and the time span between expenditure and billing, the likelihood and ability of consumers to challenge bills is reduced.

The fact that the transaction takes place electronically, in private, compounds problems from the point of view of consumer protection. The offer of services is not subject to public scrutiny.<sup>3</sup> It is difficult for consumer protection agencies to view the commodity and virtually impossible for them to scrutinize transactions involving real consumers, although they can stage transactions.

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1. A lack of motivation and a lack of control over the pace of the transaction leads to a lack of involvement (H. E. Krugman, "the Impact of Television Advertising: Learning without Involvement," Public Opinion Quarterly, 29 (1965); Jacoby and Hoyer, 1987).

2. Point of purchase information provided for later review assists in decisionmaking (Wilkie, 1982).

3. P. N. Bloom, "A Decision Model for Prioritizing and Addressing Consumer Information Problems," Journal of Public Policy and Marketing, 8, 1989, stresses post-purchase information and scrutiny by expert consumers.